

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**May 15, 2012**

### **Call to Order and Roll Call**

The 5th meeting of the Capital Projects and Bond Oversight Committee was held on Tuesday, May 15, 2012, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Jim Glenn, Co-Chair; Senators Jared Carpenter and Julian M. Carroll; and Representative Steven Rudy.

Guests Testifying: Bob Wiseman, Vice President for Facilities Management and Angie Martin, Vice President of Financial Operations and Treasurer, University of Kentucky; Larry Owsley, Vice President for Business Affairs, University of Louisville; John Hicks, Deputy State Budget Director, Governor's Office for Policy Management; Paul Gannoe, Director, Division of Engineering and Contract Administration, and Scott Aubrey, Director, Division of Real Properties, Finance and Administration Cabinet; Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority; Katie Smith, Deputy Commissioner, Department of Financial Incentives, Cabinet for Economic Development; and Tom Howard and Brett Antle, Office of Financial Management.

LRC Staff: Shawn Bowen, Josh Nacey, and Christine Robertson.

### **Approval of Minutes**

Representative Rudy made a motion to approve the minutes of the April 12, 2012, meeting. The motion was seconded by Representative Glenn and approved by voice vote.

### **Information Items**

Shawn Bowen, Committee Staff Administrator for the Capital Planning Advisory Board, said two information items were included in members' folders. The first item was an update on the allocation of 2012 Private Activity Bond Cap by the Kentucky Private Activity Bond Allocation Committee. She then noted an article in members' binders regarding a May 3, 2012 *New York Times* article related to tobacco bonds. The article reported that some bonds issued by state and local governments, backed by payments from the 1998 tobacco settlement, are in the early stages of default.

### **Project Reports Submitted by the University of Louisville (UL)**

Mr. Owsley presented one unbudgeted capital project - the Schnellenberger Football Complex project. The project scope is \$75 million and is 100 percent privately funded with UL Athletic Association funds. The scope of work includes renovations to current spaces and the addition of 11,500 square feet in expansions for the weight room, 4,000 square feet for the training room, and 2,500 square feet for storage, mechanical, and electrical space.

In response to a question from Representative Glenn, Mr. Owsley replied that he did not know the percentage of funds that had been raised for this project. Senator Carroll made a motion to approve the project. The motion was seconded by Representative Glenn and passed unanimously by roll call vote.

Mr. Owsley reported the purchase of an item of scientific research equipment known as a dual photon confocal microscope. The purchase price is \$755,200, and the sources of funds are Kentucky Spinal Cord and Head Injury Research Trust funds and gift funds. No action was required on this item.

### **Project Report Submitted by the University of Kentucky (UK)**

Mr. Wiseman reported the University's intention to enter into a long-term ground lease agreement with Education Realty Trust (EdR) to construct, expand, and potentially manage student housing. The lease is for 2.167 acres located at the intersection of Huguelet Drive and University Drive. The project is estimated to cost \$25.8 million and includes construction of two residence hall facilities on Haggin Field near the William T. Young Library. The buildings comprise approximately 313,000-gross-square-feet and will include 601 undergraduate beds, classroom space, and faculty offices.

Mr. Wiseman reported that the project will be 100 percent funded with EdR's own equity. No state funds are involved in the project. This project is part of a planned revitalization of all on-campus housing by EdR. The facility is scheduled for occupancy in fall 2013. The project was included in House Bill 1 of the 2010 Special Session of the General Assembly, and no action was required on this item.

### **Project Report Submitted by the Finance and Administration Cabinet**

Mr. Hicks reported that the Finance Cabinet has approved an allocation of \$1,500,000 from the Emergency Account for the Woodsbend Youth Development Center project in West Liberty, Kentucky. The Center was damaged during the March 2 tornado outbreak. The scope of work will include site clearing and repairs to the dormitory building, gymnasium, roofs, and cooling tower at the Center. Mr. Hicks said that he expected the project would be fully reimbursed by the Fire and Tornado Insurance Fund. In response to a question from Representative Glenn regarding future repairs to two buildings at the Center not included in this project, Mr. Gannoe replied that he expects

design and bidding to be complete in approximately 120 days. No action was required on this item.

### **Lease Reports Submitted by the Finance and Administration Cabinet**

Mr. Aubrey first presented a lease renewal for the Department for Workforce Investment in Hardin County. The lease is being renewed under the same terms and has an annual cost of \$111,374. Senator Carroll made a motion to approve the lease renewal. The motion was seconded by Senator Carpenter and passed unanimously by roll call vote.

Mr. Aubrey presented a \$1,479 leasehold improvement to a facility in Bell County leased by the Cabinet for Health and Family Services. The scope of work included installation of electric hand dryers in the staff and client restrooms. The cost of the improvement will be amortized over the remaining term of the lease. No action was required on this item.

### **Report from the Kentucky Infrastructure Authority (KIA)**

Ms. Williams presented four new Fund A loans: City of South Shore, \$3,006,000; City of Grayson, \$785,000; City of Flatwoods, \$400,000; and the City of Oak Grove, \$1,000,000.

Regarding the City of Flatwoods project, Senator Leeper asked why the ratio of engineering fees to total construction costs was 28 percent, a rate higher than most projects.

Ms. Williams said the project engineering fee was \$17,000 over the U.S. Rural Development Administration fee scale recommendation. Included within that fee are estimated administrative costs, which includes the procurement of all required easements and compliance with the Davis-Bacon Act federal wage rate reporting required on all KIA state revolving fund loans.

In response to a follow-up question from Senator Leeper, Ms. Williams said the engineering firm for the City of Flatwoods project (E.L. Robinson), will provide project administration services in addition to the standard engineering services. She added that this was fairly common practice, with about half of the engineering firms providing project administration and about half using the area development districts to complete the administrative tasks.

In response questions from Senator Carroll, Ms. Williams said KIA does not have a policy regarding the assessment of legal or administrative fees for KIA loans. She said for the City of Flatwoods project, the additional costs were primarily related to the administration of federal wage requirements, which is something new since 2009. Prior to that time, Davis-Bacon wage rate requirements did not apply to any KIA loan programs and currently, they only apply to KIA state revolving fund projects. Senator Carroll

recommended that KIA develop a policy related to the additional costs associated with new Davis-Bacon wage rate requirements. Senator Leeper said that KIA would soon be making a presentation to the committee that delves deeper into the engineering fee portion of KIA project costs.

Representative Rudy made a motion to approve the four Fund A loans. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Ms. Williams presented one KIA 2020 Program Grant to Perry County in the amount of \$30,000. The grant will finance a feasibility study to determine options for providing water to Perry County and surrounding areas. Senator Carpenter made a motion to approve the grant. The motion was seconded by Representative Glenn and passed unanimously by roll call vote.

### **Economic Development Bond Grant (EDB)**

Ms. Smith presented one EDB grant in the amount of \$250,000 to the City of Winchester for the benefit of AMZN Wacs (Amazon). The grant will cover the cost of a new customer service center in Winchester. The facility will support customer calls and emails, and it will provide technical support to various business lines. The company agrees to create 550 new, full-time jobs for Kentucky residents with an average hourly wage of \$15, excluding benefits, within 3 years of the date of the Kentucky Economic Development Finance Authority's approval. In response to a question from Representative Glenn, Ms. Smith said that benefits would include life insurance, health insurance, disability insurance, dental insurance, and 401K. The Kentucky Business Incentive program's wage target including benefits was \$20 an hour. Senator Carroll made a motion to approve the grant. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

### **New Bond Issue Reports**

Mr. Howard presented six new bond issue reports: Kentucky Asset Liability Commission (ALCo) 2012 Project Notes, Interim Bank Loan, \$75 million; Eastern Kentucky University General Receipts Refunding Bonds 2012 Series A, \$31,905,000; Morehead State University General Receipts Bonds 2012 Series A (Bank Qualified), \$5,090,000; Western Kentucky University General Receipts Revenue Bonds 2012 Series A and B, \$42,480,00; University of Kentucky General Receipts Refunding Bonds 2012 Series A, \$30,125,000; and Kentucky Housing Corporation Single Family Housing Revenue Bonds 2012 Series A, \$189,205,000.

In response to a question from Representative Glenn, Mr. Howard said that JP Morgan was one of three senior management underwriters, along with Morgan Stanley and Citi, that serves in a rotation for ALCo's project notes.

Representative Rudy made a motion to approve the six bond issue reports. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

**New School Bond Issues**

Mr. Howard reported 14 new school bond issues with School Facilities Construction Commission participation this month. Senator Carroll made a motion to approve the bond issues. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

There being no further business, Representative Rudy made a motion to adjourn the meeting. The motion passed and the meeting adjourned at 1:40 P.M.